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Your independent window on financial issues

Change and opportunity in 2013



There has been a great deal of press coverage about the changes being ushered in by RDR - the Retail Distribution Review. RDR is a key part of the consumer protection strategy of the Financial Services Authority (FSA). They say that RDR is "...establishing a resilient, effective and attractive retail investment market that consumers can have confidence in and trust at a time when they need more help and advice than ever with their retirement and investment planning."

So, what are the changes? Well, in brief, financial advisers will offer independent advice

(from across the whole market) or restricted advice (from a limited range of services and/or products); a higher standard of qualification is being introduced and commission will be replaced by fees - which will need to be disclosed and agreed upfront, with the client. (This is just an overview - we'll be delighted to provide more information.)

Finances never stand still

The changes come as a result of the FSA's aim to improve the professionalism, integrity and credibility of financial advisers. If they just sound like confirmation of what you have already experienced as a client, we would like to think that is because we have always tried to conform to best practice and to constantly improve, providing an ever better service.

However, the new RDR rules are a useful reminder that things never stand still - not just for us but for you, the client. The FSA is right when it says that help and advice is needed now more than ever. Whilst this is perhaps a reference to the times we live in, what better time to take stock than the early weeks of the New Year, when it seems natural to make a new start, to do some financial planning for known events and the unexpected? A regular financial review is one resolution that would benefit most people.

Recent or imminent house purchase, marriage, family additions, inheritance, new job and other events may all necessitate a financial review. Other issues that require long-term planning, such as retirement provision, should also be brought into the review, ideally while you are nearer to the start of your working life than the end. Pension auto-enrolment, now being phased in, may add to the need for a cohesive pension strategy.

As 2013 gets underway, the new 2013-14 Tax Year cannot be far behind - about 13 weeks behind, in fact. This makes the January-March period a time to catch up with things that have tax implications, such as pension contribution levels. There may be scope to mitigate the impact of the new rules on qualification for Child Benefit, effective 7th January, by actions that reduce 'adjusted net income' and achieve a lower or zero tax charge on the benefit. It is also important not to overlook the opportunities provided by the 2012-13 ISA and Junior ISA allowances, usable until 5th April. Why not talk to us soon?

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Taxman waits at Pearly Gates

A little internet research suggests that death duties first came to the UK in 1796, some years after US founding father Benjamin Franklin first talked about death and taxes being the only two certainties we all face. Those death duties brought an even stronger link between the two dreads in Franklin's words; and what we now call Inheritance Tax (IHT) still combines a loved-one's departure with a potentially large tax bill payable from the deceased's estate before probate can be granted and distributions made to beneficiaries.



40% could go to the taxman

IHT is levied at 40% on estates valued above a certain figure, though only on the amount above the threshold - in simplified terms, £325,000 for a single person and £650,000 for married couples and civil partners. This includes property; so, many people whose estates suffer IHT are not immensely wealthy. It is only natural to want your successors to gain maximum benefit from your estate and there are various legitimate ways to plan for and to mitigate the impact of IHT.

Offspring and IHT mitigation

A relatively simple way to reduce the size of your estate, and thus any IHT liability, is by giving assets to younger generations during your lifetime, perhaps when they most need it. There are possible snags to weigh up against the advantages. IHT may still be payable if you die within seven years of making such 'potentially exempt transfers' (PETs) in excess of the prescribed limits for outright IHT exemption. Other issues surround whether the recipient might fritter their windfall and whether you should retain your wealth for possible care fees.

If you decided to divest yourself of a very large sum but did not survive for seven years, a resulting IHT liability could have been covered by a 'gift inter vivos plan', a decreasing term assurance policy (held in trust) to cover the gradually decreasing potential IHT liability. Sometimes, despite carefully considered giveaways, an IHT bill may be inevitable and it is sensible to plan for this.

IHT being payable before probate is granted can be awkward for your heirs if the estate is locked into property and other illiquid assets, so they could need a loan to pay the taxman.

Accessible money to pay IHT can be released from a whole of life policy. A sole or 'joint life second death' policy, according to circumstances, placed in trust for the beneficiaries and thus excluding its proceeds from the deceased's estate, can provide the cash required. The premiums paid on this policy naturally reduce the estate. Cover may depend on health and other things, whilst premiums may sometimes be regarded as PETs or as chargeable lifetime transfers, so do discuss matters with your professional adviser to identify the best course for you.

Inheritance Tax Planning, taxation and trust advice are not regulated by the Financial Services Authority.

Tax breaks too good to ignore

It cannot be easy running the UK economy. Now we are in the doldrums, the Chancellor would like us to spend more to help the economy recover and generate more VAT and other tax. At times in the past, things have been different and George Osborne's predecessors have wanted us to spend less, so they have encouraged us to invest and save more by inventing schemes that offer tax incentives. Putting money aside has generally been seen as virtuous and with its tax breaks on certain savings and investment accounts the Government made savings and investment even more worthwhile.

The concept was kick-started by the introduction of the Personal Equity Plan (PEP) in 1987, when Nigel Lawson was Chancellor under Margaret Thatcher. The Tax-exempt Special Savings Account (TESSA) followed in 1991, conceived when John Major was Chancellor, though he had by the birth become PM. With the public becoming more aware of investment issues amidst privatisation and building society flotation fever, and interest rates (and the tax saved) being relatively high, TESSA was a huge success.



Make sure you don't miss out

Enter the ISA

When John Major handed the keys of Number 10 to Tony Blair and Gordon Brown moved in next-door, the PEP and TESSA came under scrutiny and, inevitably, a change came in 1999. PEPs became stocks & shares Individual Savings Accounts (ISAs) and TESSAs became cash ISAs, with existing accounts converting to Tessa-only ISA (TOISA). It seemed that investors were drowning in a sea of acronyms, with the added complication of Mini and Maxi ISAs. Happily, things are simpler now, with the term ISA covering all variants.

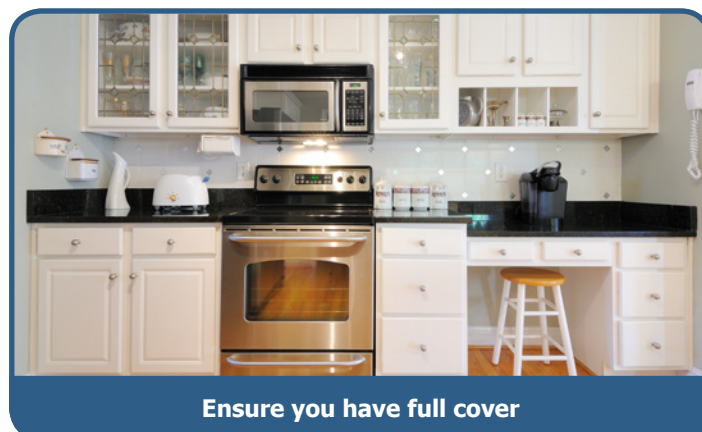
The 2012-13 annual investment limit for an ISA is £11,280, with up to half of this, £5,640, in a cash ISA. The accounts are exempt from income tax and capital gains tax, although the 10% tax on UK company dividends is not recoverable. Although all ISAs operate under the same tax regime, they are far from being identical. Stocks and shares ISAs may contain direct shareholdings or collective investments and the risk characteristics and income generated vary, so professional financial advice is important. Investment may be by lump sum or monthly subscription and that applies also to cash ISAs, which pay different rates according to the choice of provider and account terms.

The ISA has maintained the popularity of previous schemes, so much so that a Junior version (JISA) was launched in November 2011. For those under-18s not entitled to a Child Trust Fund, the JISA allows up to £3,600 per annum to be invested in cash and/or stocks & shares, with tax breaks similar to ISAs. Parents and others can help youngsters gain a useful sum on reaching 18, usually with no access to the JISA funds before then.

All homes at risk

Major floods across the UK during 2012 again highlighted that insuring homes and possessions, if you can, is money well spent. Flooding is just one of many hazards to which homes, possessions and life itself are exposed. Water has other ways of damaging our homes and all are prone to the effects of burst pipes if we leave homes unheated or vulnerable pipes with no lagging. In prolonged sub-zero conditions and the ensuing thaw, Association of British Insurers (ABI) members receive 3-4 thousand claims per day, with an average water damage claim around £7,000.

Fire is another hazard that can strike any home, potentially destroying it and necessitating site clearance and a rebuild. Thatched homes may be more vulnerable to external sources of fire, but conflagrations can be started by domestic appliances,



Ensure you have full cover

cigarettes, chip pans and other everyday things, so there is no room for complacency. The ABI says that the typical payout for a household fire in 2011 was about £10,200. Fire also poses a risk to life, making smoke alarms vital.

Contents value adds up

Fire and water can damage both the fabric of a property and its contents. It is easy to underestimate the value of furniture, furnishings, kitchen appliances, clothing and other belongings acquired over the years. This is often tens of thousands, so contents insurance should not be seen as an optional extra but an integral part of sensible household cover. As regards theft of contents, ABI statistics show that the average theft claim is around £1,500, though some losses are much higher.

ABI figures for 2011 show that Britain had 26.3 million households, with 16.6 million buildings policies and 19.7 million contents policies in existence, on which there were 2.1 million claims. These figures indicate one claim for every 17 policies in a single year. The several million households that these figures show have no buildings or contents insurance must include thousands that suffer property loss or damage that could have given rise to a claim if they had only been covered.

We do not imagine that the well-informed readers of this newsletter would be without the buildings and contents insurance they require, but there is a fair chance that existing cover needs to be reviewed by an expert to ensure that it includes all the right risks, such as subsidence, as this can be hugely expensive to rectify, and continues to be for sufficient sums insured; also that all relevant information has been disclosed to the insurer. An experienced intermediary with in-depth knowledge of property insurance cover and the terms of different insurers' policies can help you find the cover you need, with a good insurer and at a sensible cost.

News in brief (data compiled by The Financial Marketing Department except where otherwise stated)

The Chancellor of the Exchequer, George Osborne, named Mr Mark Carney as the new Governor of the Bank of England, to succeed Sir Mervyn King in June 2013. Dr Carney, a 47 year old Canadian, is currently Governor of The Bank of Canada. He will hold the position for five years.

The Office for National Statistics reported in December that UK unemployment fell by 82,000 to 2.51 million between August and October 2012. This represents the greatest quarterly fall since 2001. With the unemployment rate down 0.2% to 7.8%, employment rose to 29.6 million which is the highest number of people in employment since records began.

After prolonged negotiations, the eurozone countries have finally agreed to give the European Central Bank (ECB) direct oversight of the 200 biggest banks in the region. This is considered a key step on the road to a full European banking union, which is deemed essential to safeguard the Euro currency.

In an anticipated announcement late in December 2012, the UK Government gave the go-ahead to re-start the controversial 'gas fracking' process to extract natural gas from rock, by injecting water, sand and chemicals under immense pressure. Ed Davey, the Energy Secretary, said this was a promising new potential energy source for the UK.

Question: 'What if...' Answer: 'Protection'

Figures from the Association of British Insurers (ABI), whose members account for around 90% of UK insurance business, show just how important protection insurance is to the financial well-being of many individuals and their families. The ABI numbers tell us that benefits totalling £36.8 million per day were paid out in 2011 to holders of protection, term and whole life policies. There were some 28.4 million such policies in existence and these ABI figures do not include endowment and other life policies that involve an investment element.

The existence of more than 28 million policies means roughly one per UK household, but there is not an even spread. Some well-informed and prudent households may have multiple policies that could include mortgage protection along with critical illness or income protection, whilst other less careful households have no protection policies whatsoever. Not everyone has a mortgage, so an ABI analysis showing that around 15% of households have mortgage protection cover is not unexpected. Low take-up of some other forms of protection insurance is more surprising.

Distress of income loss

Anyone can suffer a sudden loss of income and, unless their employer's sick pay scheme is exceptionally generous, could very quickly face financial distress in the event of prolonged illness or serious accident. Some TV advertising would have viewers believe they need not worry about the financial impact of an accident. They will be able to claim compensation running into thousands of pounds, more in serious cases, it would appear. This ignores the time it can take to make a successful claim, especially if the other party disputes it, and some accidents can be our own fault anyway.

Everyone needs to think very carefully about vulnerability to misfortune and, in particular, the effect this could have on the family. We could at this point remind you about various tragic cases that hit the headlines or quote distressing statistics about premature death and life-changing illnesses that come out of the blue to wreck lives. We do not see that as necessary to get the point across, the point being that we should all once in a while ask ourselves the uncomfortable 'what if?' questions.

It is dangerous to rely on statistical odds against serious illness or death in our thirties, forties, fifties, or whenever, because it could still be us. So, if the answer to one of those tricky 'what if?' questions is 'my family would be unable to pay the mortgage and other bills or enjoy aspects of life that we now all take for granted', then it is time to get professional advice on term insurance to cover those crucial years, plus other forms of protection to ensure that the pain of emotional upheaval is not compounded by financial misery.



Make sure you have a will

It is important to take professional advice before making any decision relating to your personal finances. This publication represents our understanding of law and HM Revenue and Customs practice as at the date of publication. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK, please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated. If you withdraw from an investment in the early years, you may not get back the full amount you invested. Changes in the rates of exchange may have an adverse effect on the value or price of an investment in sterling terms if it is denominated in a foreign currency.